Child Care Programs

Background. The state makes subsidized child care services available to (1) families on public assistance and participating in work or other activities conducive to employment, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the family's progress in transitioning from welfare to work.

Child care services under Stage 1 are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two tiers: General Child Care (which is delivered predominately through child care vouchers and child care centers) and are available on a limited basis for families with exceptional financial need, while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

2005-06 Child Care Policy Proposals. The proposed 2005-06 Budget contains a total of $3.1 billion (both General Fund and federal funds) to provide child care services to CalWORKs recipients, former CalWORKs recipients, and the "working poor".

As part of his budget, the Governor proposes a variety of programmatic reforms to the state's subsidized child care programs. The proposals -- which will likely require statutory changes -- are aimed at saving the state General Fund monies, creating more "equity" between former CalWORKs recipients and the general public in obtaining child care services, and improving the quality of available childcare. Generally, the reforms will: (1) limit the amount of time CalWORKs families can receive an entitlement to child care; (2) decrease the reimbursement rates to providers; and (3) blur the lines between the services provided to former CalWORKs recipients and the general public. All together, the Administration expects its reform proposals to result in $172.1 million in savings (from both federal and state funds).

Limiting Eligibility. The Governor proposes to limit program eligibility by capping the length of time CalWORKs families may receive an entitlement to subsidized child care. Specifically, the proposal would place limits on the length of time CalWORKs families would be allowed to remain in Stage 3 child care, thus forcing future CalWORKs recipients to apply for General Child care services as soon as they are eligible to do so.

This proposal is identical to the time-limit proposal submitted by the Administration as part of the 2004-05 May Revision.

Beginning in 2005-06, families in Stage 1 or 2 CalWORKs child care would be allowed to finish out their two year limit in those programs. At the point when families have earned income, they would be allowed to put their names on a general Alternative Payment Provider (AP)/child care voucher program waiting list and access general child care services as space becomes available. If at the end of their Stage 2 time, a general child care slot has not become available, then the family is eligible to move to Stage 3 child care where they will face another 1- or 2-year maximum before their child care entitlement expires. Families “off” cash aid as of July 1, 2005 would be allowed 2 years in Stage 3 before losing services; families “on” cash aid as of July 1, 2005 would be allowed one year in Stage 3 before losing services. The intent of the Administration is that an AP voucher child care slot will come available within the three or four years a CalWORKs family would spend on the waiting list.

In order to ease the transition, CalWORKs families currently in Stage 3 would be shifted to the voucher program where they would remain as long as the family and child(ren) remain eligible (the child is under age 13 and family income is within eligibility thresholds.) The Governor’s proposal increases the amount of funding (and hence the number of child care “slots”) in the AP/voucher program by $248.6 million to accommodate this influx of children. No immediate savings are expected as a result of this proposal.

Centralized Child Care Wait Lists. The Administration proposes to end the practice of having AP’s maintain multiple child care waiting lists per region. Instead, the Governor proposes to have only one centralized waiting list per county. Lists would be maintained on a county-by-county basis by the local county child care planning council, which would receive additional funding to develop and maintain the lists. Under the Governor’s proposal, the list would be divided into two sections: the first section would be for families whose income is below the level where fees/co-payments are charged; these families would receive care on a *first-come, first-served* basis. The second section would include families with slightly higher incomes (at or above the level where a fee/co-payment is required); these families would receive services based on income – with the lowest income families being served first (which is consistent with current practice).

11- and 12-Year Olds – Shift to Before/After School Programs. As part of the current year Budget Act, After School Programs are designated as the “preferred placement” (rather than traditional child care) for 11- and 12-year olds, and additional funding was provided in the 2004 Budget Act to expand the capacity of Before and After School Programs in order to accommodate more 11- and 12-year old students. Under the current practice, parents have the option of choosing Before/After School Programs as their primary source of child care, certify that Before/After School Programs meet their child care needs, and then actively remove their child from part or all of the subsidized child care program. Under the Governor’s proposal, the burden shifts. Instead, parents would now be required to certify that a Before/After School Program either does not exist or does not meet their needs in order to continue receiving subsidized child care for their 11- or 12-year old. The Administration estimates that this requirement to “opt out” of

Before/After School Programs (rather than "opt in") will result in $23.8 million of savings in 2005-06.

Reimbursement Rates. In order to further reduce budget-year costs and provide a monetary incentive to improve the quality of child care, the Governor is proposing to reduce the reimbursement rates to licensed-exempt child care providers, while concurrently adopting a "tiered" reimbursement mechanism (similar to a salary schedule) which would compensate exempt providers more if they acquire specified training or early childhood education coursework. This rate change is expected to result in $140.1 million in savings in the 2005-06 fiscal year.

Under current law, licensed-exempt providers are paid 90 percent of the amount paid to family child care homes or center-based child care providers. Immediately upon enactment of the Budget, exempt providers would see their reimbursement rates fall to 60 percent of this rate. If, within 90 days, exempt providers demonstrate and/or certify that they've received the required training, then their reimbursement rate would stay at the reduced 60 percent level. If they fail to receive the required training within the 90 day window, their rates would be reduced to 55 percent of the Homes and Center-Based providers. At present, it is unclear how the rate adjustments would occur and whether or not contracts and/or agreements with local Alternative Payment Providers (APs) would need to be adjusted to accommodate the reduced rates.

The table below (information provided by the Department of Finance) illustrates the impact of the licensed-exempt rate proposal:

		Rate Structure *(Full month care for 2-5 year old child.)*		
Sample Counties	*Current Maximum Rate for Licensed-Exempt Providers (90% of max. licensed provider rate)*	*Median Rate Charged by licensed providers*	*Maximum rate if exempt provider demonstrates training (60% of max. licensed provider rate)*	*Maximum rate if exempt provider does not demonstrate training (55% of max. licensed provider rate)*
Sacramento	$526.00	$487.00	$350.70	$321.48
San Francisco	$779.50	$768.50	$519.60	$476.30
Los Angeles	$584.50	$541.50	$389.70	$357.23
Contra Costa	$623.50	$584.50	$415.80	$381.15
Fresno	$487.50	$433.00	$324.90	$297.83
Shasta	$467.50	$433.00	$311.70	$285.73

The Administration proposes imposing a similar rate-change structure for family child care home providers and center-based providers, but allows those providers two years to demonstrate training and/or licensing requirements. Under the Governor's proposal, family child care and child care center providers would see their reimbursement rates fall to 75 percent of the Regional Market Rate (RMR) ceiling (set at the 85^{th} percentile of the RMR) if they do not demonstrate specified training or certification requirements. The 2005-06 budget shows no savings affiliated with this portion of the proposal, as rates for these providers would not be reduced until July 1, 2007.

In/Out of Market Rates. Current law, which has been suspended in this year's budget, limits the maximum rate that can be paid to a provider to the rate paid by a private-pay/unsubsidized family in the same region for the same services. In cases where a provider serves only state-subsidized children, the maximum rate is based on a sampling of the private-pay rate in the region.

While the Legislature has opted to suspend implementation of this law in the past, primarily due to the fact that rates would decrease for many providers, the Administration is proposing to put the law into effect because it will save approximately $8.2 million.

Use of Federal Poverty Level. Under current law, families are eligible for subsidized child care services if their income is at or below 75 percent of the State Median Income (SMI), as adjusted for family size. The Governor proposes the use of a new index – the Federal Poverty Level (FPL) – in place of the SMI beginning in 2005-06. The Administration sites the FPL as a more reliable index – it is updated annually by the federal government – and is the same index used to determine eligibility for other state and national health and human services programs. Based on the proposal, the shift to the FPL would be designed to ensure that no family currently eligible for services would lose eligibility. No monetary savings are associated with this proposal.